Review

SOUTH AFRICA AND THE WORLD ECONOMY

A Review of Pauline Baker, Alex Boraine and Warren Krafchik (eds) (1993) - *South Africa and the World Economy in the 1990s* (Cape Town and Johannesburg, Washington: David Philip, The Brookings Institution in association with IDASA and the Aspen Institute) (xvi + 263pp, R54.95).

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Of the collections that have thus far appeared on the South African economy, this is the most engaging although it can usefully be compared to Merle Lipton and Charles Simkins' recent and highly competent *State and Market in Post Apartheid South Africa.* Lipton and Simkins tend to stand on the fulcrum of a philosophical and slightly distanced balance. To generalise does an injustice to a couple of its contributors but it is fair to suggest that most are judicious and sensible and tend to argue away the possibility for fundamental changes in economic policy on the part of a new government (with Merle Lipton on agrarian reform perhaps the most radical reformer).

By contrast, the Baker collection begins by proclaiming that 'there is consensus that South Africa's current economic path will have to be fundamentally restructured' (1993:ix). At the same time, all the contributors to it feel that the international economic context and the trends emanating from that context are going to be of great importance in determining what is possible. Contributions include both concrete and very stimulating analyses of contemporary international economic conditions, containing limited suggestions for where South Africa fits into the larger picture, and a couple of substantial South African critical assessments.

With regard to the former, the most important are by Robert Lawrence and Paul Krugman on foreign investment and world trade, by Sanjaya Lall on competitiveness, and by Sheila Page on the development of GATT and the Uruguay Round on world trade agreements. In addition, Daim Zainuddin on Malaysia and Duck-Woo Nam on Korea provide illuminating comparative assessments. On the latter, one would signal Vishnu Padayachee's article on the World Bank and the IMF, and the Economic Trends Group Industrial Strategy Programme team's composite analysis of South African industry.

There is much more of a sense of the cut and thrust of economic debate about

Baker et al than about Lipton and Simkins; arguments are more transparent. The role of international financial institutions is one of the issues argued about as is the competitiveness of South African industry. In addition, there are several complementary essays on the question of regional economics and the potential for economic integration in southern Africa.

Perhaps underlying the entire volume is the question of foreign investment. What will attract foreign investment to South Africa? Are conditions required which will be otherwise damaging to the domestic economy? To what extent should South African economic recovery depend on it? Lawrence and Krugman both emphasize that in the current international climate, foreign investment depends heavily on an attractive fiscal and exchange rate policy. After a period of uneven growth and growing protectionism (although largely through other means than conventional tariff barriers) internationally, the signals now are for freer trade, declining state controls, currencies valued at a minimum and low exchange rates. According to Krugman, 'South Africa will be more likely to gain access to world capital markets if it can get any restructuring of property rights behind it; if it can demonstrate that it is more market-oriented than investors now expect; and if it can offer what appears to be a competitive rand' (1993:47).

The real question is to what extent these conditions are worthwhile pursuing, in particular as the chief goal of policy. The best current international examples of countries which have followed these prescriptions are in Latin America and Australasia. While some foreign investment and economic growth has resulted, it is not entirely clear whether or not these economies as a whole are qualitatively advancing. For instance, the ISP team notes that a recent survey found 'no significant link between export expansion and productivity growth' (1993:99). The latter group are dedicated to the proposition that South Africa needs more than just a trade policy; it needs an overall industrial policy aimed at building research and development capacity, developing industrial exports through targetting strengths, rewarding both job creation and improving productivity, and advancing competition through breaking up conglomerates (although they equivocate somewhat on this final point).

In his essay, Lawrence emphasizes the rapid move through the 1980s away from conventional international trade in natural commodities based on comparative advantage towards trade in manufactured products, a trade in which South Africa has not been able to perform very effectively. The ISP group puts much weight on this proposition and also accepts as inevitable the kind of conditions under which economies in the world are developing, conditions which are often labelled as 'structural adjustment' - but there is an insistence that 'getting prices right' is simply not going to be sufficient for getting on a new kind of growth trajectory. Their essay contains a host of policy departures aimed at the wider picture. These ideas find support in a parallel contribution by Lall, who supports an interventionist development-orientated state strategy; he is, moreover, coming from an impressive knowledge of international comparisons. He stresses that 'neither theory nor practice supports the case for completely liberal trade policies' (1993:56).

Padayachee argues that while there are advantages in gaining goodwill and broad sympathy from the World Bank and attendant institutions, it is crucial for South Africans to work out their own financial regime and their own priorities in allowing growth to take place without state expenditure and debt constraints overwhelming the process. External assistance and monetarist strictures should not be fetishized in a way that leaves to the background the question of sustainable growth: growth which will not just 'happen' because prices are favourable or an aid flow is maintained. Interestingly, these emphases are in fact accepted by the volume participants close to the Bank and its policy-makers as correct. The reader of Peter Fallon's contribution (he is a senior economist with the World Bank), amongst others, will wonder, if the Bank may not be considering a more socially responsible intervention in South Africa, with its huge problems but very real resources, as a test case of post-monetarist policy proposals. It badly needs an African success story.

The set of essays on regional economic possibilities is the most substantial yet available. The authors raise the question of which institutional framework, the Southern African Customs Union (favoured by Gavin Maasdorp), SADC (favoured by Laurence Cockcroft) or the PTA, would suit the development of a regional economy. All are relatively blunt about the problem of finding mutual interest amongst potentially very unequal partners. Rob Davies signals 'the acute potential for polarisation in a regional programme involving South Africa and current SADC or PTA member countries' (1993:220). Prakash Sethi suggests that 'for regional economic integration to succeed, the stronger nations of the region must be willing to export capital and transfer resources to the weaker nations to equalise levels of development, wages, social support networks and employment opportunities' (1993:223). He favours project-based strategic alliances that bring mutual interests to bear effectively and prevent sclerosis.

At the outset, the preface calls for bold ideas to overcome 'poverty, inequality and violence' which can potentially overturn a democratic political order in South Africa (1993:vii). Ultimately, this is the key argument for growth. Without this driving the arguments, the policy debates remain somewhat distant from the realities on the ground, if less so than in Lipton and Simkins. The weakest part of Baker et al, in fact, is its relative silence on what would seem to be the most obvious issues of all, especially to the new South African electorate: welfare, jobs, wages, equalisation. There is also what Lall calls the issue of 'human capital', the need to improve continually the quality of the workforce from what is often a low base in South Africa. It is these economic issues that will speak the most to the politicians and it is curious that radical economists have tended to avoid them in order to concentrate instead on those questions which are only going to be answered effectively in the medium- to long-term.

The ISP paper is perhaps the only one that is really concerned with this issue and even there it is addressed largely indirectly. Thus it discusses the potential for the construction industry to a limited extent, but this is really rather marginal to the overall argument. Can you build productivity in the current international environment, retain or improve wages *and* expand jobs all at once? They argue that 'we do not see a trade-off between distribution, social welfare and resumed productivity growth' (1993:99). They advocate potential growth strategies, such as development of an informal sector that can soak up unemployed labour, which are not usually associated with strategies of the left and at the same time propose systematic high level consultations with organised labour on strategic issues in the economy (1993:96). In general, while covering very wide ground suggestively and creatively in ordering up a large menu of attractive dishes, they seem as well to be trying to avoid what may be hard policy choices. The next level of debate must start to integrate the kind of issues where the Baker volume is strong with economic debates on welfare and delivery, inequality and survival, job and wage issues. This is when the arguments will start to come down to the ground and the real choices ahead will be directly (and perhaps painfully) reflected.